choices

IDEAS FOR SHARED PROSPERITY

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Regional Greenhouse Gas Initiative Up for Debate

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Over the next six months the Dept. of Environmental Protection and the incoming Maine Legislature both will give serious attention to an innovative proposal for addressing what arguably is our most significant social and environmental problem today - global warming. The proposal is called the Regional Greenhouse Gas Initiative, or RGGI, and has so far won approval from the governors of seven Northeast states, including Maine's Governor Baldacci.

DEP is currently conducting informal workshops across Maine to explain RGGI's provisions and solicit citizen reaction and input. Meetings in Presque Isle, Portland and Bangor will be completed by the end of November and a meeting will be held in Augusta December 19.

Following this round of informal meetings, DEP is going to design a formal rule to implement RGGI which will require legislative approval for some of its provisions. That approval will be sought possibly in spring 2007 or certainly by spring 2008.

RGGI proposes to place a cap on CO2 emissions in the participating states and then lower the capped amount by 10% by 2019. The program focuses initially on power plant emitters of CO2 but allows emitters to trade allowances in order to fulfill the cap targets set for individual generators. The six power generators in Maine large enough to fall under the RGGI cap-and-trade requirements are the Cousin's Island power plant in Yarmouth, Calpine's natural gas plant in Westbrook, the Rumford power plant in Rumford, the Casco Bay natural-gas fired plant in Veazie and the two Verso paper mills in Bucksport and Jay that formerly were owned by International Paper.

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Based on similar cap-and-trade programs that are in place under the federal acid rain program and within the European community for CO2, observers expect allowances to trade in a range of $5 per ton to $15 per ton of carbon. For the six generators in Maine that are big enough to fall under RGGI's ambit, this could represent overall compliance costs of $10 to $30 million.

The program has a safety valve in the form of alternatives for compliance when CO2 allowances exceed $7 per ton. It also has a number of so-called "offset" opportunities for reducing an emitter's compliance costs and for capturing value in the form of landfill gas power generation, forestation projects in areas not previously wooded, energy efficiency/demand-side management measures that save oil and natural gas, and others.

As Maine's Public Advocate for utility customers, I have participated as an appointed member of RGGI's Stakeholder Working Group since 2003 and have followed the multi-state RGGI negotiations closely. It is my view that going forward with RGGI is timely and desirable, notwithstanding an estimated ratepayer impact of $3 to $50 per year in 2015 for residential customers.

My reasoning is as follows:

1) It has been my experience that ratepayers generally do not begrudge an increase in utility rates as long as it pays for a meaningful improvement -- as in the example of improved drinking water quality, electric utility service or telephone-based Internet options. As long as RGGI secures a meaningful reduction in carbon emissions from the Northeast, ratepayers are not likely to oppose it purely on the grounds of cost impact.

2) Anticipating the adoption of federal controls on CO2 emissions, to adopt the RGGI cap-and-trade system in 2008 will give the Northeastern states valuable experience with finding the most cost-effective mitigation strategies and will encourage R&D development in this area.

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3) Cap-and-trade programs generally have been shown to be a powerful device for stimulating technical innovation and for securing larger amounts of investment on a voluntary basis than occurs under a command-and-control method of regulation.

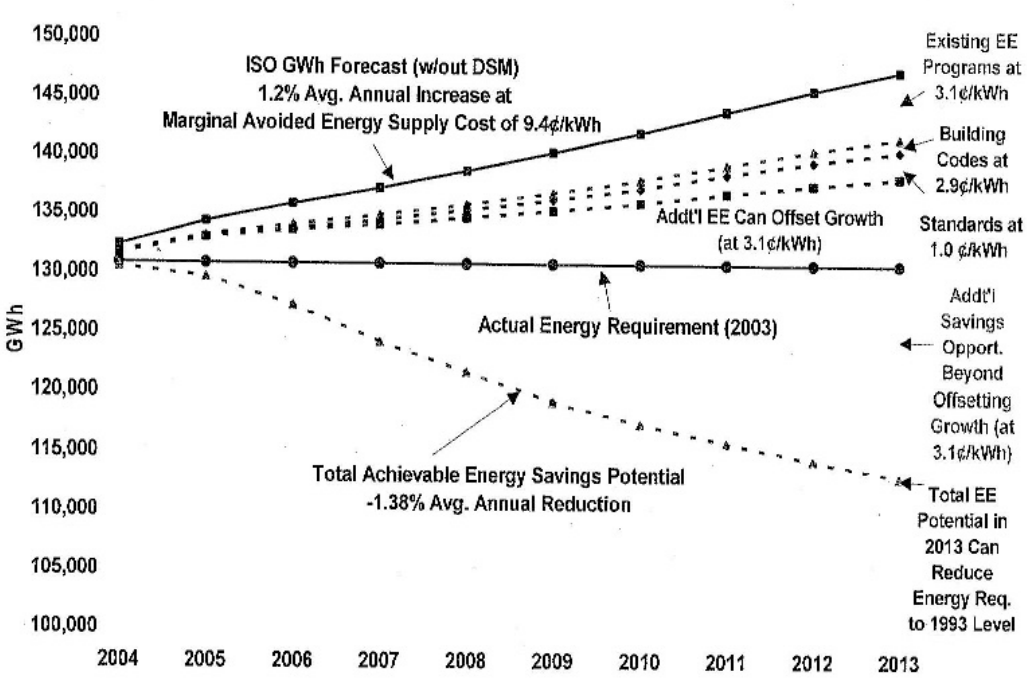
4) RGGI will provide a powerful stimulus for more ratepayer investment in electric efficiency and demand-side management (DSM) as prices rise in wholesale markets and compliance costs increase.

The last point is particularly important because RGGI itself will also operate as a source of funding for DSM programs, such as the Public Utility Commission's Efficiency Maine program, at the same time that it creates incentives for customer-initiated conservation investment.

The provision of the model RGGI rule that creates this funding opportunity is the so-called "public benefit" requirement that no less than 25% of the revenue from allowances that a participating state provides to generators must be directed to that state's menu of "public benefit" programs. These will certainly encompass DSM and energy efficiency programs but also could include direct bill credits for classes of electric ratepayers or for low-income assistance programs like Central Maine Power's Electric Lifeline Program.

The 25% minimum funding requirement for public benefit funding has already been exceeded by Vermont, whose legislature adopted a 100% requirement for public benefit use of emission allowance revenues. It seems to me that setting the public benefit allocation at 100% makes very good sense, for two reasons:

1) In New England's bid-based wholesale electric markets, prices are set by the generator whose supply matches demand requirements for a given 5-minute increment of ISO-New



England's daily power auction. Experience with CO2 allowances in bid-based power markets in the United Kingdom and the European Community has already demonstrated that even if CO2 allowances are provided to generators at no cost, generators still include a per-ton "opportunity cost" for CO2 compliance in their wholesale market bids.

If customers eventually have to absorb all the costs of RGGI compliance in their retail power bills, there is good reason for them to receive 100% of the proceeds from the sale of allowances. Customers can put these proceeds to good use either by participating in RGGI-funded energy efficiency programs or through direct credits on their monthly bills, or both.

2) If one agrees that CO2 reductions are a critical regional, national and global goal for policymakers over the next 30 years, there is certainly no good reason to exempt generators from absorbing any program expense while all resulting costs are passed on to retail customers. Whether or not CO2 emitters are characterized as polluters, there is no reason to ensure that all other segments of society pay for program compliance costs while charging generators zero for the emissions allowances they require.

In short, even if Maine chose not to participate in the RGGI program and withdrew altogether from the seven-state agreement, Maine's electric customers - large and small - would still pay the costs of RGGI compliance in their power bills. This is because ISO-New England's bid-based market system will incorporate in regional prices the cost of CO2 allowances, and Mainers have no present alternative to paying those wholesale prices in their monthly power bills.

If ratepayers are stuck with paying these compliance costs, we certainly should insist on a full share of RGGI's public benefit allocation and get no less than 100% of the proceeds from the sale of allowances.

We continue to believe that the ratepayer impacts of RGGI will be manageable, on the order of a 3% increase on an annual $1000 residential electric bill in 2015. However, these impacts - modest though they may be - can be offset altogether if RGGI provides an irreplaceable source of new funding for Efficiency Maine's program.

RGGI Public Meetings

November 28, Portland
Abromson Center at USM
9 AM to noon.

November 30, Bangor
Spectacular Event Center
9 AM to noon.

December 19, Augusta
Augusta Civic Center
9 AM to 3 PM

In effect, there is a prospect of net reductions in the bills of electric customers who participate in RGGI-funded efficiency programs. As shown on the graph (page 3), observers identify energy efficiency programs as an indispensable part of the New England supply mix today, with an estimated cost of about 3.1 cents/kilowatt-hour. These costs compare very favorably to the 6 to 8 cent/kilowatt-hour cost of New England's generation fleet.

But with additional political will and funding, much more significant reductions in New England's annual growth in electric load are possible. RGGI can help eliminate the annual 1.2 % region-wide increase in electric load growth and can assist in taking off line the most polluting and carbon-emitting units in New England's generation fleet - at very favorable price levels compared to new peaker power plants. Apart from the positive effects on the region's electric supply mix, every electric customer who actually participates in a RGGI-funded DSM program will simultaneously be lowering their household or business electric bill and slowing the pace of global warming.

Due to California's adoption of a similar set of carbon constraints for power generators in that state and, as well, the shift in party control of key committees of the U.S. House and Senate, we are on the brink of significant national movement in addressing the climate change challenge. Maryland, Massachusetts and Rhode Island appear to be ready to enlarge the seven-state Northeast RGGI coalition to ten states. There now exists an opportunity to roll back our share of global carbon emissions at little cost to consumers. Maine should embrace this opportunity.

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